

Overview of the Rental Assistance Demonstration (RAD) Program

June 2014

Summary

Challenge:

The Public Housing program has remained underfunded for more than 30 years, leading to ~\$26 billion capital backlog

The nation's Public Housing stock is struggling, and has significant capital repair needs

New Tool:

Conversion to the project-based Section 8 programs provides an opportunity to invest billions into the public housing stock

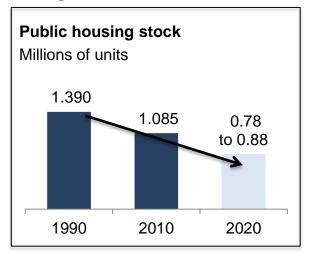
The Rental Assistance Demonstration (RAD) allows PHAs to undertake this conversion for some units

HUD has achieved its goal of standing up this new tool, attracting many PHAs to participate

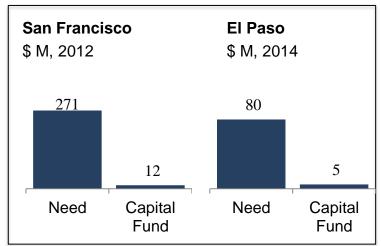
Only 60,000 units are currently able to convert; lifting cap will make the RAD tool available to all PHAs who want to use it

Many challenges with the public housing stock

Losing affordable units – National



Unpredictable and insufficient funds – Examples



- Average age of public housing stock is 43 years
- The inability to invest means worsening living conditions for tenants
- Funding levels of operating and capital funds are unpredictable
- Chronic underfunding over more than 30 years has only gotten worse
- ~\$26 billion of capital investment is necessary to meet current needs

Challenging living conditions - El Paso example

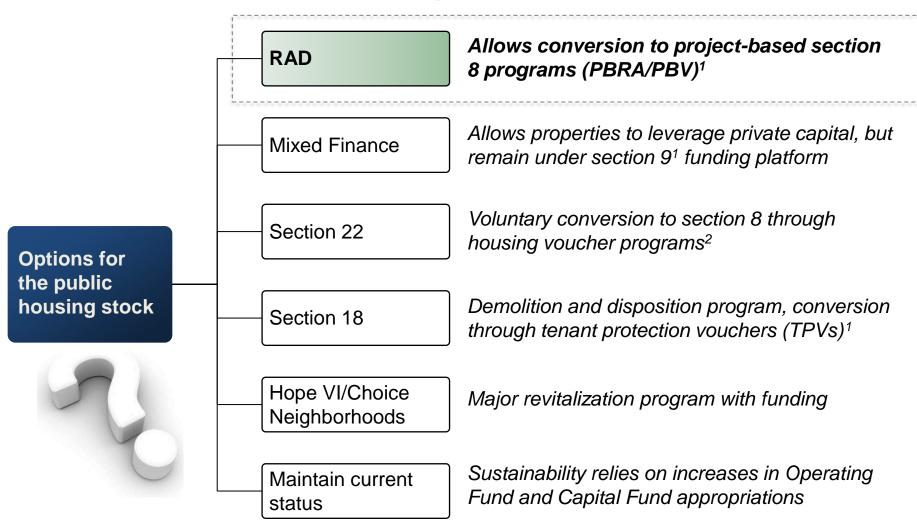


Machuca: 49 out of 122 units (40%) offline



Tays: 11 out of 359 units offline due to structural damage and asbestos

RAD is one of several options available to PHAs



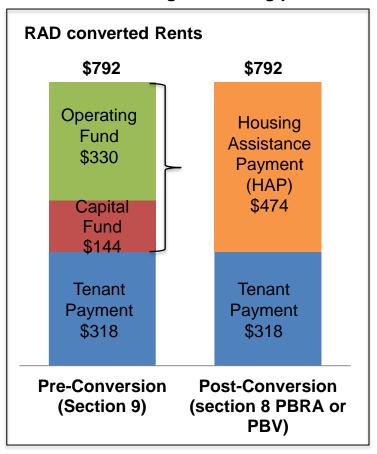
- See Appendix for definitions
- 2. Allows PHAs to convert if costs under section 8 are cheaper; limited by how many vouchers are available across entire program in any given year

4 S A DEVELOPMENT

Source: HUD FOR DISCUSSION

Why conversion to project-based section 8?

RAD allows a change in funding platform¹



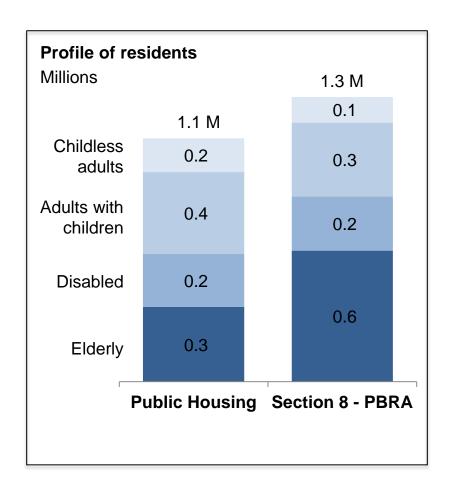
Numerous benefits to conversion

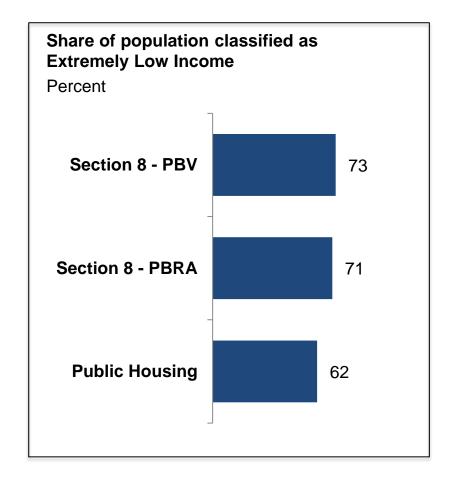
- Allows preservation of affordable housing units as opposed to vouchering out tenants and/or demolition
- 2. PBRA and PBV are well established programs
 - a. PBRA alone has 17,400 contracts in operation
 - Established industry of lenders, owners and stakeholders
 - c. More than \$30 billion of private capital already deployed
- Greater funding certainty and access to private capital
- Greater operational flexibility to empower PHAs to serve communities

1. Section 9 (current Public Housing funding platform) funds properties through the Operating Fund and Capital Fund; when converted to project-based Section 8, those funds are transferred into a Housing Assistance Payment (HAP) contract (see Appendix for further detail)

Source: HUD FOR DISCUSSION 5

Section 8 residents are very similar to section 9 (public housing) residents





The potential impact of conversion to projectbased section 8 via RAD for existing applicants¹

\$6 B Infusion of capital investment into the public housing stock¹

\$25,000 Average investment per unit (per family)

120,000 Jobs created across communities nationwide²

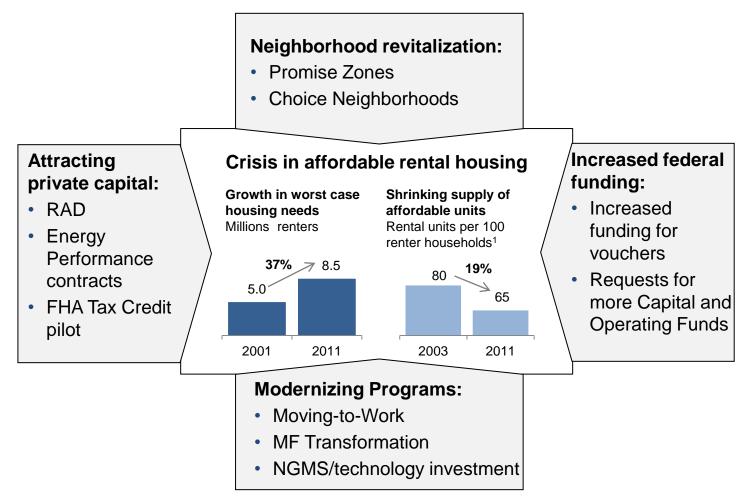
180,000 Families and elderly citizens in better housing

In additional federal funding

- 1. Based on RAD applications submitted covering 180,000 units
- 2. Multiplier of 20 jobs for every \$1 million of capital investment



RAD is one part of HUD's aggressive agenda to tackle the affordable rental housing crisis



1. Renter households defined is very low income renters

RAD was designed to test a few things

Will RAD conversions lead to real improvements in the public housing stock?



Will RAD attract the diversity of PHAs and communities that make up the public housing portfolio?



Can the public housing stock attract the needed capital investment?



Can the program be designed in a way that gives a voice to tenants and protects their rights and services?



How will RAD protect public interest in what is currently a public asset?



Can HUD effectively manage the RAD program and the volume of conversions?





Will the conversions lead to real improvements in the public housing stock?



Examples

Liberty Gardens

- · Rome, New York
- Constructed in 1952
- 52 units reconfigured into 46 units and 3 duplexes, containing six units
- Substantial rehab; \$200K per unit
- Tax credits combined with loan commitment from State of New York
 CPHM program

Landsman Gardens

- · Las Vegas, Nevada
- 100 units, constructed in 1971
- FHA Financing and tax credits
- \$125K investment per unit
- Major rehab; asbestos and lead removal; accessibility measures; sewer lines



Yakima scattered site

- Yakima, Washington
- Built in 1979, 150 units
- 9% LIHTC, no debt
- \$63K per unit investment; substantial rehab of all 150 units
- · Resident in-place rehab
- Green/energy efficiency



Page Homes

- · Trenton, New Jersey
- Has been boarded up for a decade
- · To demolish and rebuild
- Tax credit combined with Hurricane Sandy-related funding and local economic development funding



36 applications closed covering ~3,400 units as of May 2014 representing \$150 million of new investment

Profile of applications and potential impact

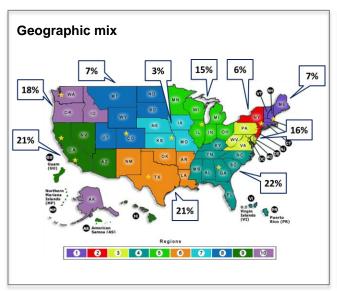
- 20% of units are for demolition and new construction
- Average hard costs of repairs for major rehab is \$45,000 per unit

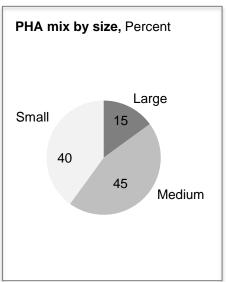
Will RAD attract the diversity of PHAs and communities that make up Public Housing?

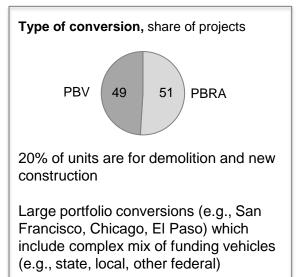




PHAs representing 15% of the public housing stock have applied for RAD







Can the public housing stock attract the needed capital investment?

\$3 billion in equity investment Of applications submitted to date, PHAs are able to **\$1.9 billion** in bring in more than conventional mortgage **\$6 billion** of financing additional investment into the public housing stock **\$1 billion** in FHA insured mortgage financing

Can RAD be designed in a way that gives voice to tenants and protects their services?



Tenant rights

- Current residents have right to occupy the completed RAD project without rescreening
- If residents are relocated, must be provided with relocation assistance and option to return to the completed RAD project
- Maintain Right to Appeal Terminations and form tenant organization from Public Housing program
- PHAs must notify, consult and engage residents throughout RAD conversion through public hearing process
- Choice-mobility newly available to tenants (e.g., PBV tenants can move after 1 year, PBRA after 2 years)

Tenant services

- Resident participation funds remain available to support tenant organization and resident services
- Family Self Sufficiency and Resident Opportunities and Self Sufficiency program will remain available to current participants
- Service Coordinators in section 8 programs may be available to tenants in converted properties



How will RAD protect public interest in what is currently a public asset?



Several important protections have been put in place to preserve public interest in converted housing units

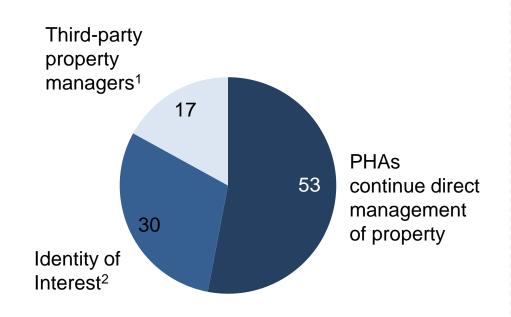
- □ RAD is a **voluntary program** PHAs, in consultation with their local community and tenants, have the choice to participate or not
- The RAD statute requires public or non-profit ownership or control
- □ The RAD statute allows for ownership by a tax credit partnership but ONLY if the PHA preserves its interest in the property
- Owners of converted properties are required to renew their contracts and cannot opt out when contracts expire
- ☐ The RAD Use Agreement **ensures long-term affordability**

How will RAD protect public interest in what is currently a public asset?



Post-conversion property management

Percent of closed RAD conversions; as of May 2014



For those limited number of PHA's using third-party property management, HUD encourages actively supporting employees that may get impacted. E.g.,

- Working with local municipalities to create opportunities
- Developing labor agreements with project developers
- Creating opportunities in Section 8 program management
- 1. Property management contracted out to an independent third-party property management company; Already a very common practice both in Public Housing and Section 8
- 2. Property managed by a property management company co-owned by the PHA



Source: HUD FOR DISCUSSION

Can HUD effectively manage the RAD program and the volume of conversions?



Lessons learned (examples)

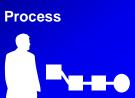
- External confusion about status of applications; PHAs struggling with complex application process
- Internal roadblocks and stumbles among HUD silos
- Lack of transparency into process and capacity needs
- Policy issues leading to low uptake of RAD; slow processing of applications due to unresolved internal conflicts on policy issues

Changes made (examples)

- RAD Toolkit developed to help PHAs navigate application process
- Provide "expeditor" support to PHAs struggling with their applications
- Publication of approved applications on HUD website



- Developed complete process map of each step of RAD processing
- Developed standard guides and procedures for all staff roles
- Building fast-track lanes for certain types of applications (e.g., Tax Credits)
- Consolidated processing activity under one division (OAHP/MFH)



- Automated dashboard to track status of each application
- Detailed analysis of productivity and capacity requirements for each stage of the process
- Weekly RAD Approval Committee meetings; weekly cross-department RAD leadership meetings



- Eliminating 1,000 unit limit on number of units that PHA can convert
- Clarifying relocation policies and procedures
- Clarifying internal procedures for release of Declaration of Trust
- Allowing portfolio applications and multi-phase development projects



16

Can HUD effectively manage the RAD program and the volume of conversions?



HUD has spent the past 18 months putting in place a robust process to manage RAD

Application for HAP Commitment (CHAP)

CHAP issuance Application for RAD conversion (RCC)

RCC issuance

Closing process

Closing

Post-closing quality control

- Two resident consultations
- Board approval
- Financing Letters of Interest

- At least one additional resident meeting
- Significant Amendment to Annual Plan
- Physical Conditions Assessment (PCA)
- Application for Firm Commitments
- Financing Plan

- All closing documents reviewed for compliance
- 70 applications have gone through CHAP and RCC issuance
- 36 applications have been closed as of May 2014

- Tenant relocation compliance
- HAP payment processing
- Asset management oversight

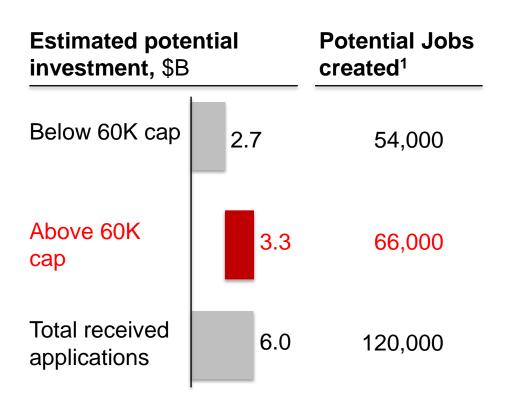
17

Why lifting the 60K cap is a necessity

- 1. \$3 billion of tax credits and other funding sources at risk of expiring or being re-allocated to other priorities
- 2. Forgoing opportunity to invest an additional \$3 billion in public housing and the creation of ~66,000 jobs
- 3. Continued deterioration of public housing units with no other viable options on the horizon
- 4. Current cap limits access to just the few PHAs that are under the cap and creates unequal playing field for the other 3,000+ PHAs
- 5. Lack of certainty creates a disincentive for financial institutions and private capital to participate in program

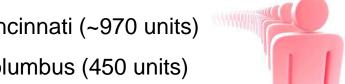


Not lifting cap means forgoing billions of investments in many communities across country



Sample of communities on wait list

- Tampa (~2,100 units)
- Mobile (~1,800 units)
- County of Los Angeles (1,800 units)
- Indianapolis (~1,500 units)
- Philadelphia (~500 units)
- San Bernardino (~550 units)
- New York City (~1,400 units)
- Portland (~575 units)
- Durham (~440 units)
- Cincinnati (~970 units)
- Columbus (450 units)



^{1.} Multiplier of 20 jobs for every \$1 million of capital investment

Appendix

Glossary (1 of 2)

Choice Neighborhoods: The Choice Neighborhoods program supports locally driven strategies to address struggling neighborhoods with distressed public or HUD-assisted housing through a comprehensive approach to neighborhood transformation. Local leaders, residents, and stakeholders come together to create and implement a plan that transforms distressed HUD housing and addresses the challenges in the surrounding neighborhood. The program is intended to catalyze critical improvements in neighborhood assets, including vacant property, housing, services and schools.

CHAP: Commitment to enter into a Housing Assistance Payment (HAP) Contract. Document, provided to the PHA or owner for projects that have been approved for RAD conversion, that describes the terms under which HUD will enter into a HAP contract with the project owner.

HOPE VI: The HOPE VI Program was developed as a result of recommendations by the National Commission on Severely Distressed Public Housing, which was charged with proposing a National Action Plan to eradicate severely distressed public housing. HOPE VI provides grant funding to public housing agencies that have severely distressed public housing units in their inventory. The grants fund projects including: capital costs of major rehabilitation, new construction and other physical improvements; demolition of severely distressed public housing; acquisition of sites for off-site construction; and community and supportive service programs for residents.

Housing Assistance Payment (HAP): The payment made by the Contract Administrator to the owner of an assisted unit as provided in the HAP contract. Where the unit is leased to an eligible household, the payment is the difference between the contract rent for a particular assisted unit and the HUD-required rental contribution from eligible residents.

Low Income Housing Tax Credits (LIHTC): The LIHTC Program was enacted by Congress in 1986 to provide the private market with an incentive to invest in affordable rental housing. Federal housing tax credits are awarded to owners/ developers. Developers then sell these credits to investors to raise capital (or equity) for their projects, which reduces the debt that the developer would otherwise have to borrow. Because the debt is lower, a tax credit property can in turn offer lower, more affordable rents. Provided the property maintains compliance with the program requirements, investors can receive a dollar-for-dollar credit against their Federal tax liability each year over a period of 10 years.

Glossary (2 of 2)

Project-Based Rental Assistance (PBRA): Rental assistance provided by HUD to owners according to the terms of a HAP contract for the provision of housing to eligible tenants. The PBRA program is administered by HUD.

Project-Based Vouchers (PBV): A component of a PHA's Housing Choice Voucher program, wherein a PHA can attach voucher assistance to specific housing units through a HAP contract with an owner.

Tenant Protection Vouchers (TPVs): Vouchers issued to eligible tenants of certain properties when an event at the property would otherwise expose tenants to a loss of rental assistance, resulting in an increase in their housing costs. HUD provides funding for TPVs to a voucher agency that has jurisdiction over the area in which the property is located.

Public Housing Agency (PHA): An agency created by local government to administer public housing.

RCC: RAD Conversion Commitment. Contract executed by HUD and the PHA or owner, following HUD approval of the submitted Financing Plan, that describes the terms and conditions of the conversion.

Section 8: Section 8 of the Housing Act of 1937, as amended, authorizes the payment of rental housing assistance to private landlords on behalf of low-income households. The largest part of the section is the Housing Choice Voucher program which assists very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market. Housing choice vouchers are administered locally by public housing agencies (PHAs). The PHAs receive federal funds from HUD to administer the voucher program.

Section 9: Section 9 Public Housing was established to provide decent and safe rental housing for eligible low-income families, the elderly, and persons with disabilities. HUD administers Federal aid to local housing agencies that manage the housing for low-income residents at rents they can afford.